

**Prepared by: Benefits and Entitlements Branch
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**For Additional Information: 703-696-6301 or DSN 426-6301
FAX: 703-696-4705 or DSN 426-4705**

SOCIAL SECURITY

A Guide for Human Resources Specialists



**Civilian Personnel Management Service
Field Advisory Services Division
Benefits & Entitlements Branch
1400 Key Boulevard, Suite B-200
Arlington, VA 22209-5144**

INTRODUCTION

This reference guide provides basic Social Security information and expanded information pertaining to the impact Social Security has on the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). Specific information and questions related to individual entitlements under the Social Security Administration (SSA) should be directed to the SSA.

A brief review of Social Security's historical background is needed to understand the affects Social Security has on CSRS and FERS.

Prior to 1984, most Federal civil service employees were covered under CSRS. Employees excluded from CSRS coverage by law (for example, employees hired under temporary appointments) were covered under Social Security's Federal Insurance Contributions Act (FICA) tax.

The Social Security Amendments Act of 1983, Public Law 98-21(P.L. 98-21), provided Social Security coverage for all Federal employees first hired after December 31, 1983, *or* rehired after a break in service of more than 365 days on January 1, 1984. Pending establishment of the new retirement system (FERS), P.L. 98-168 required CSRS employees subject to the 1983 amendments to begin making reduced contributions (1.3 percent of basic pay for most employees) to CSRS in conjunction with paying Social Security taxes. Individuals covered under CSRS and Social Security during these interim years (January 1, 1984, through December 31, 1986) were referred to as **CSRS Interim** employees.

Although the interim retirement plan was intended to briefly provide coverage until a new Federal retirement plan could be developed, it was actually 2 years (first of 1984 until the end of 1986) before FERS was established. On January 1, 1987, some employees who were covered by the *interim* plan had become vested in CSRS by virtue of having 5 years of creditable (or potentially creditable) civilian service under CSRS. As of January 1, 1987, vested employees who were previously covered under the interim plan were now covered under the CSRS Offset retirement system. Generally, CSRS Offset employees are employees who had a break in CSRS covered service of more than 1 year and at least 5 years of creditable civilian service by the end of 1986. Employees with less than 5 years of creditable civilian service on December 31, 1986, were automatically covered under FERS. In addition, employees who elected FERS coverage during transfer opportunities, certain employees excluded from CSRS coverage, and employees first appointed on or after January 1, 1984, are subject to FERS.

It is possible for employees covered under FERS to also have a CSRS retirement component that includes years of service creditable under CSRS because all retirement

contributions were made into CSRS. Social Security directly affects those covered by FICA, CSRS Offset, and FERS, and may also affect the benefits of CSRS employees. This guide initially describes the general provisions of the Social Security program and follows with a description of how the Social Security program impacts CSRS and FERS.

BECOMING INSURED UNDER SOCIAL SECURITY

An individual must be insured under the Social Security program before retirement, survivor, and disability insurance benefits can be paid. To be insured, a person must acquire a certain number of credits (formerly referred to as “quarters”) for coverage.

An individual can earn Social Security credits for a specific amount of work covered under Social Security. Social Security uses a lifetime earnings record reported under an individual Social Security Number (SSN). The number of credits you have earned will determine if you have enough for **Insured Status**.

Anyone earning at least \$4,480 in calendar year 2011 will receive the maximum of four credits for that year. The number of credits required for the three types of **insured status** depends on the age of the worker and the type of benefit for which the worker is applying.

Fully Insured

In order to be considered for fully insured status, a person needs at least 6 credits. No more than 40 credits are required, regardless of your date of birth. Additionally, a person is fully insured if:

- they have at least 1 credit for each calendar year after 1950; or
- if later than 1950, they have at least 1 credit for each calendar year after they turned 21 and the earliest of the following:
 1. The year before they turn 62;
 2. The year they die; or
 3. The year they become disabled.

For exceptions to determining fully insured status, and deemed fully insured, refer to the Social Security Handbook at the following web site, www.ssa.gov.

Currently Insured

A person is currently insured if they have at least 6 credits of coverage during the full 13-quarter period ending with the calendar quarter in which they:

- died;
- most recently became entitled to disability benefits (applicable if there is more than one period of disability); or
- became entitled to retirement insurance benefits.

Insured Status for Disability Benefits

A person is insured for disability benefits if:

- they have at least 20 credits during a 40-calendar quarter period (the 20/40 rule);
- the 40-calendar quarter period ends with the quarter in which a person is determined to be disabled; and
- they are fully insured in that calendar quarter.

Special Insured Status – Disabled before Age 31

“Special insured Status” allows an option to the “20 credits in 40 quarters” provision. Individuals disabled before age 31 can qualify for disability insurance benefits or establish a period of disability.

The minimum number of credits a person needs for special insured status is at least 6 credits. If a person becomes disabled before the quarter in which they turn 24, they would need 6 credits in the 12-quarter period ending with the quarter their disability began. In this case, the quarters counted will go back before the quarter in which they turned age 21.

A person meets the special insured status requirements if, in the quarter their disability is determined to have begun, or in a later quarter, they;

- have not yet turned 31;
- are fully insured; and
- have credits in at least one-half of the calendar quarter;
 1. during the period beginning with the quarter after the quarter they turned 21; and
 2. ending with the quarter that a person became disabled.

The credits **must** be earned in this period. If the number of elapsing calendar quarter is an odd number, the next lower even number is used.

For further detailed information on “insured status,” please refer to the Social Security website or call their toll free number 1-800-772-1213; TTY 1-800-325-0778.

COMPUTATION OF BENEFITS

Social Security benefits are typically computed using “average indexed monthly earnings” (**AIME**). This average summarizes up to 35 years of a worker’s earnings. Social Security applies a formula to this average to compute the primary insurance amount (**PIA**). The PIA is the basis for the benefits that are paid to an individual. The PIA is the sum of three separate percentages of portions of the AIME. This formula changes each year. The calendar year 2011 formula for computing a benefit or **PIA** is:

90% x first \$749 of AIME plus
32% x amount over \$749 thru \$4,517 (\$4,517 - \$749 = \$3,768) plus
15% x AIME over \$4,517

RETIREMENT BENEFITS

Individuals who elect to receive retirement benefits at the minimum retirement age of 62 will be subject to a reduction. This reduction will be applied to the benefit for the lifetime of the individual and is not reduced when the individual attains full retirement age. For information on the age to receive full benefits go to www.ssa.gov/pubs/retirechart.htm. Additional credit is granted to individuals who delay the receipt of retirement benefits past full retirement age. The amount of social security retirement benefits may be adjusted based on several factors, including the Government Pension Offset (GPO) and the Windfall Elimination Provision (WEP). Further explanation on GPO and WEP may be found in this guide under the section titled, Government Pension Offset and Windfall Elimination Provision.

As a general rule, early retirement will give an individual about the same total Social Security benefits as full retirement over a lifetime, but in smaller amounts to take into account the longer period a person will receive benefits.

DISABILITY RETIREMENT UNDER SOCIAL SECURITY

Eligibility Criteria

An individual is entitled to Social Security disability benefits if they meet **all** of the following conditions:

- are considered a disabled worker;
- have filed an application for disability worker’s benefits;
- have disability insured status;
- have completed a 5-month waiting period or has been exempted from this requirement; and
- have not reached full retirement age.

Benefits begin with the first month that an individual meets all of the conditions that are listed under the eligibility criteria. The SSA defines disabled as the inability to engage in any **substantial gainful activity (SGA)** by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted, or can be expected to last, for a continuous period of not less than 12 months. The impairment must be the primary reason for an individual's inability to engage in SGA.

SGA is defined as the performance of significant physical or mental duties that are productive in nature and performed for remuneration or profit. The monthly SGA amount for 2011 is \$1,000. To be substantial, it does not need to be performed on a full-time basis.

The applicant's impairment must be the primary reason for his/her inability to engage in SGA. Age, education, and work experience are also taken into consideration in determining the individual's ability to do *any* work. This differs significantly from CSRS/FERS disability where OPM reviews an applicant's inability to do his/her **current job**. The more stringent criteria are evident in the broad questions required in the SSA Disability Report. Listed below are some key questions that an applicant must be prepared to answer when applying for disability.

- What is your disabling condition?
- When did your condition first bother you?
- Did you work after that date?
- When did your condition finally make you stop working?
- How does this condition prevent you from working now?
- List the name, address and telephone number of the doctor who has the latest medical record regarding your disabling condition and any other physicians you have seen since your disabling condition began.
- Provide date and location of any tests performed (electrocardiogram, any x-ray, breathing or blood tests).
- Describe daily activities such as cooking, cleaning, shopping, recreational activities, hobbies, social contacts, and method of transportation.
- List and describe all jobs you have held in the last 15 years.

Disability Application Processing

The first step taken by an individual when applying for benefits is to make an appointment with Social Security by calling 1-800-772-1213. If the applicant suffers from a terminal illness, i.e. AIDS or cancer, the ailment should be indicated to the service representative when making the appointment. The allegation of a terminal illness typically requires expedited processing of the claim. The representative will

electronically communicate with the applicant's local claim office to schedule an appointment. The applicant will be mailed a confirmation notice and a disability application, Form SSA-3368-BK. The applicant should complete this form in its entirety prior to the appointment date. In many instances this is the applicant's only opportunity to describe the nature and extent of his/her disability.

Five Month Waiting Period

When a claim is approved, no benefits are payable for the first five full months of disability. Benefits start with the sixth full month of disability.

Medicare

A person can receive Medicare coverage automatically after they have received disability benefits for 2 years. Those covered include, disabled workers at any age, disabled widows/widowers age 50 or over, and beneficiaries age 18 or older who receive benefits because of disability beginning before age 22. Coverage will continue for 24 months after an individual is no longer entitled to receive disability payments because they have returned to work, provided the disabling condition continues.

Termination of Benefits

Entitlement to disability benefits ceases:

- the second month after the month in which the disability ceases,
- the month before the month the worker attains full retirement age (at which time benefits are automatically converted to retirement benefits), or
- the month before the month in which death occurs.

Trial Work Period

The Trial Work Period (TWP) is a program that allows disabled beneficiaries to work up to 9 months (within a 60-consecutive-month period) without affecting the right to benefits during the TWP, if the impairment does not improve during this period. The TWP is provided as an incentive for personal rehabilitation efforts for disabled workers, widow(er) and childhood disability beneficiaries. Any work and earnings during the nine-month TWP are disregarded in determining whether the disability ceased during the TWP. However, should a medical recovery occur during the TWP, benefits may be terminated. Only one TWP is allowed in any one period of disability.

FAMILY BENEFITS

If an individual is receiving Social Security retirement benefits, some family members may also receive benefits. Covered family members include:

- spouse, if they are age 62 or older;

- spouse, who is younger than 62, if they are taking care of their child entitled on the workers record who is under age 16 or disabled;
- former spouse, if they are age 62 or older;
- children up to age 18 or 19, if they are full-time students who have not yet graduated from high school; and
- disabled children, even if they are age 18 or older.

There is a limit to the amount of money that can be paid to a family; usually, 150-180 percent of a worker's benefit payment. If the total benefits due to spouse and child(ren) are more than this limit, their benefits will be reduced. A worker's benefit will not be affected.

Spouse Benefits

If a worker is receiving retirement or disability benefits and their spouse meets certain conditions, Social Security benefits may be payable to the spouse. The spouse must be age 62 or older **or** younger than 62 and caring for a child under age 16 (or a disabled child of any age) who is entitled to children's benefits. A spouse **eligible** for their own retirement benefit based on their own employment will receive a spouse benefit only if that spouse benefit exceeds their own benefit. The individual is entitled to receive their benefit plus the difference between this benefit and the higher spouse benefit.

Example #1: Sally, age 65, worked in a position covered by Social Security and is eligible for benefits based on her own employment record. Her individual benefit is \$350 per month. Her husband receives a Social Security benefit of \$1000 per month. Based on his benefit, Sally is eligible for a spouse benefit of \$500 per month. Sally will actually receive \$500 per month.

	\$500	Sally's spouse benefit (1/2 of husband's \$1000 benefit)
minus	<u>\$350</u>	Sally's earned benefit
	\$150	Difference between Sally's spouse benefit and her earned benefit
plus	<u>\$350</u>	Sally's earned benefit
	\$500	Sally's total monthly benefit

Example #2: Alice is eligible to receive a Social Security benefit of \$650 per month based on her own employment record. She is also eligible for a spouse benefit of \$400 per month based on her husband's employment. She will receive \$650 per month. Alice's own benefit is greater than the spouse benefit, therefore no additional amount is payable.

If a spouse would like to receive Social Security retirement benefits before they reach full retirement age, the amount of the benefit is reduced **permanently**. The amount of reduction depends on when the person reaches full retirement age. A current spouse cannot receive spouse's benefits until the worker files for retirement benefits.

Former Spouse Benefits

Former spouses may also be eligible for spouse Social Security benefits if certain conditions are met. The worker does not have to be retired, but must be at least age 62 and eligible to receive Social Security benefits. For a former spouse to qualify for this benefit the former spouse must:

- have been married for at least 10 years;
- be at least 62 years old;
- be unmarried; and
- not be eligible for an equal or higher benefit on their Social Security record, or on someone else's Social Security record.

If the former spouse continues to work while receiving benefits, the earnings limits apply to them. When the former spouse is eligible for an equal or higher benefit based on their own Social Security record or on someone else's Social Security record, no other benefit is payable. The amount of benefits a former spouse receives has no effect on the amount of benefits the insured or their current spouse may receive.

Children's Benefits

Children of retired or disabled workers, up to age 18, may be eligible to receive Social Security benefits. Unmarried children under age 19 enrolled as full time students in elementary or secondary school, ***and*** severely disabled children over age 18 (who became disabled before age 22) may also be eligible for a benefit.

SURVIVOR BENEFITS

Survivor benefits in the form of continuing cash income may be payable upon death. The deceased employee must have earned credit for work covered by Social Security. For many survivor cases, the number of required earnings credits is based on the worker's age at the time of death.

Social Security survivor benefits can be paid to:

- **widow or widower**- full benefits at full retirement age, or reduced benefits as early as age 60 (50 if disabled). The deceased must have been ***fully*** insured.
- **widow or widower**- at any age if they take care of the deceased's child under age 16 or disabled, who receives Social Security benefits.
- **unmarried children** under 18 (or up to age 19 if attending elementary or secondary school full time) or adult children who became disabled before age 22 as long as they remain disabled. Under certain circumstances, benefits can also be paid to stepchildren, grandchildren, or adopted children.

- **dependent parent(s)** at age 62 or older if dependent on deceased for at least half of their support.

A former spouse can receive benefits under the same circumstances as a widow/widower if the marriage lasted 10 years or more. Benefits paid to a surviving divorced spouse who is 60 or older will not affect the benefit rates for other survivors receiving benefits. In general, a widow/widower cannot receive benefits if they remarry before the age of 60 (50 if disabled) unless the latter marriage ends. Remarriage after age 60 (50 if disabled) will not prevent payments on a former spouse's record. The amount of the survivor's benefit is based on the earnings of the person who died. The amount a survivor receives is a percentage of the deceased's basic Social Security benefit. The deceased worker must have been *fully* or *currently* insured.

Survivor Benefits are subject to the earnings test which will be discussed below.

Lump Sum Death Payment

A one-time payment of \$255 may be payable if the deceased employee had enough Social Security credits. This payment is made to the surviving spouse, or in certain circumstances, minor children. It is payable at any age as long as the deceased was fully or currently insured under Social Security. The spouse must have been living with the deceased at the time of death.



HOW WORK AFFECTS THE SOCIAL SECURITY BENEFIT (Earnings Test)

A beneficiary between age 62 and their full retirement age can lose some or all of their Social Security benefit by working. This is because beneficiaries are subject to **earnings limits**. These limits are set each year and differ by age group. In 2011, the limit is \$14,160/yr. (\$1,180/mo.) for beneficiaries under full retirement age. In 2011, the year you reach your full retirement age, the limit is \$37,680/yr. (\$3,140/mo.). After reaching full retirement age there is no limit to the amount of earnings and no loss of benefits. Beneficiaries who expect to earn more than the annual limit are asked to contact Social Security so that the benefit can be adjusted promptly. Earnings must be reported by April 15 of each year and failure to report expected earnings may result in an overpayment. This is in addition to Federal income tax returns.

Earnings which exceed the limits above are considered **excess earnings**.

If under full retirement age and earning more than the limit, **\$1** of benefits will be lost for each **\$2** of earnings over the limit. In the year you reach full retirement age and earning more than the limit, **\$1** of benefits will be lost for each **\$3** of earnings over the

limit. Social Security recovers overpayments of benefits by reducing benefits payable to the worker in future months until the debt is repaid.

Kinds of Earnings that Cause Loss of Benefits

Wages received as an employee and net earnings from self-employment, bonuses, commissions, fees, vacation pay, cash tips of \$20 or more a month, severance pay, and earnings from all types of work, including work not covered by Social Security count for the earnings test.

Initial Year of Retirement

If earnings exceed the yearly limit in the initial year of retirement, a **Special Monthly Earnings Test** will be applied. Regardless of how much is earned during the year, a full Social Security benefit is payable for any month in which earnings are below the limit. In 2011, the limit is \$3,140/mo for individuals who retire at full retirement age, and \$1,180/mo for those who retire at ages between 62 and their full retirement age. Self-employed beneficiaries will receive benefits for any month in which they do not perform substantial work. Work of more than 45 hours per month is generally considered substantial, however work between 15 and 45 are considered substantial if involving management or highly skilled occupations. When earnings for a particular month exceed the limit by even \$1 the beneficiary is ineligible for any payment.

APPLYING FOR BENEFITS

Payment of Social Security benefits is not automatic--individuals must file a claim to receive benefits. A visit to the SSA is not necessary. Most applications can be completed over the telephone by calling 1-800-772-1213 between 7 a.m. and 7 p.m. EST, Monday through Friday. Calls are heaviest during the middle of the day, in the beginning of the week, and at the beginning of the month. Individuals can also file a claim for benefits on the SSA web site, and can contact their local SSA offices for assistance.

Family members and survivors should be advised to apply for benefits promptly because, in some cases, benefits may not be retroactive. The SSA requires original documents or agency certified copies to process a claim. Complete instructions on the application process may be obtained from the SSA. Depending on the type of claim, the following documents may be required:

- claimant and deceased employee's social security numbers,
- claimant's birth certificate,
- death certificate or funeral director's statement (for survivors benefits),
- widow or widower's marriage certificate,
- marriage and divorce papers if claimant is a divorced spouse,

- children's birth certificates and social security numbers,
- employee's W-2 forms for most current year, or tax return, if self-employed,
- checking account information for direct deposit, and
- DD214, military discharge papers, if applicable.

BENEFIT ESTIMATES

In October 1999, SSA began mailing a redesigned statement to all individuals age 25 or older. The statement identifies taxable earnings reported by employers and the estimated Social Security taxes paid. It provides an estimate of the Social Security benefit that the worker can expect to receive at full retirement as well as benefits that may be payable to the worker or family members in the event that a disability or death occurs before retirement. Federal employees should be advised that the statements do not provide estimate reductions for GPO and WEP. In the past, benefit estimate statements were available only upon request. The law now requires that mailings be done automatically each year. The redesigned statements will provide the opportunity to verify the accuracy of earning records as well as serve as a valuable financial planning tool. Statements with incorrect earnings, name, or Social Security number should be reported to SSA at 1-800-772-1213.



TAXES AND SOCIAL SECURITY

Social Security benefits are generally not taxable if they are the only income. However, for persons with substantial income in addition to their Social Security benefits, they may have to include part of their benefits in their taxable income. To determine whether any of the benefits are taxable, the beneficiary must figure the total amount of income and one half of their benefits and compare the total to a **base amount** for the filing status, as explained.

50 Percent Rule

If the beneficiary receives income during the year in addition to benefits, up to 50 percent of the benefits could be included in taxable income if the income is more than the following **base amounts**:

- \$25,000 if single, head of household, or qualifying widow(er);
- \$25,000 if married filing separately and *not* filing a joint return and did *not* live with a spouse at any time during the year;
- \$32,000 if married filing a joint return and did live with a spouse at any time during the year;
- \$0 if married and *not* filing a joint return and *did* live with a spouse at any time during the year.

85 Percent Rule

If the beneficiary receives income during the year in addition to the benefits, up to 85 percent of the benefits could be included in the taxable income if the income is more than the following **adjusted base amounts**:

- \$34,000 if single, head of household, or qualifying widow(er),
- \$34,000 if married filing separately and lived apart from spouse for the year
- \$44,000 if married filing jointly, or
- \$0 if married filing separately and lived with spouse at any time of the year.

The 50 percent rate is used to figure the taxable part of income that exceeds the base amount but does not exceed the higher adjusted base amount. The 85 percent rate is used to figure the taxable part of income that exceeds the adjusted base amount.

If the income:

- 1) is equal to or less than the base amount, none of the benefits are included in taxable income,
- 2) exceeds the base amount but does not exceed the adjusted base amount, no more than 50 percent of the benefits can be included in taxable income, or
- 3) exceeds the adjusted base amount, no more than 85 percent of the benefits can be included in taxable income.

At the end of the year, a Form 1099 (Social Security Benefit Statement) is forwarded to each beneficiary showing the amount of benefits received along with a worksheet (IRS Notice 703). This worksheet can be used to figure whether any portion of the Social Security benefits are taxable.

INTERACTION OF THE SOCIAL SECURITY PROGRAM WITH THE FEDERAL RETIREMENT SYSTEMS

CSRS and Catch-62

Individuals first employed in positions covered by CSRS before October 1, 1982, who performed post-1956 active duty military service may receive credit for the military service if CSRS retirement occurs prior to age 62. However, if no military service deposit is made, and the individual is eligible for Social Security benefits, the CSRS annuity must be reduced by eliminating the service credit at age 62. OPM is required to contact SSA to determine entitlement to Social Security. If there is no Social Security eligibility, then there is no reduction of the CSRS annuity. OPM will not request any further verification for that individual, so if entitlement to Social Security occurs at a later date, after age 62, the CSRS annuity would not be reduced.

CSRS and Social Security Survivor Benefits

If the deceased was first covered by CSRS before October 1, 1982, and had post-1956 military service, the decision to make a deposit for the military service is directly related to the survivor's eligibility for Social Security survivor benefits. The survivor of a deceased employee may be entitled to immediate Social Security survivor benefits if the employee was fully insured under Social Security. In this case, the survivor must pay the nonrefundable deposit in order to have the post-1956 military service included in the CSRS survivor annuity computation. If the deposit is not paid, the military service may be included in the computation in the future, if the survivor loses entitlement to Social Security survivor benefits based on the deceased employee's service. This could potentially occur if the survivor becomes eligible for Social Security benefits based on their own earnings that exceed the survivor benefit, if the survivor marries before age 60, or if a minor child reaches age 16 and Social Security benefits stop. However, the post-1956 military service will again be eliminated if the survivor later becomes entitled once again to Social Security benefits based on the deceased employee's service. If the survivor is not eligible for Social Security survivor benefits, the post-1956 military deposit need not be paid.

If it is known that a survivor will become eligible for Social Security in the future, a reduction in the CSRS survivor annuity may be avoided by making a deposit for the post-1956 military service prior to the final adjudication of the claim. The survivor may also receive credit in the CSRS survivor benefits computation without making the deposit. However, if they become entitled to Social Security based on the deceased employee's military service, generally at age 60, the post-1956 military service will be eliminated from the CSRS computation and the CSRS spousal survivor annuity will be reduced.

Example #1: Jack dies in service without making a deposit for 4 years of post-1956 military service. Jack is fully insured under Social Security at the time of death. The surviving spouse, Jill, is age 60 and eligible for an immediate Social Security survivor benefit. Jill makes the military deposit and her CSRS survivor annuity computation includes the 4 years of post-1956 military service.

Example #2: Jack dies in service without making a deposit for 4 years of post-1956 military service. Jack is fully insured under Social Security at the time of death. The surviving spouse, Jill, is age 50, will not be eligible for Social Security survivor benefits until age 60. The military service will be used in the computation of Jill's CSRS spousal survivor annuity whether or not she makes the deposit for the 4 years of post-1956 military service. Jill decides not to make the deposit. When Jill is 60 and becomes eligible for the Social Security survivor benefit, her CSRS spousal survivor annuity is recomputed to exclude the 4 years of military service and her CSRS spousal survivor annuity is reduced.

CSRS Offset Annuities

When CSRS Offset employees retire, they receive full CSRS benefits until they are eligible for Social Security benefits. At that time, the CSRS benefit is offset by the portion of their Social Security benefit that represents the period of time they were covered by both CSRS and Social Security. The employee's gross monthly annuity will be reduced by the offset amount, which is calculated by the Social Security Administration.

The offset amount equals the **lower** of the following two amounts:

1. The portion of the Social Security benefit attributable to the (post 1983) offset service, **OR**:
2. The total Social Security benefit multiplied by a fraction equaling the nearest whole number of (post 1983) offset years divided by 40.

EXAMPLE: Annuity before offset: \$800.00
Offset Service: 3 yrs. 8 mo. (4 yrs)
SS Payable: \$350.00
SS w/o Offset*: \$325.00
(* based on covered employment other than CSRS Offset; e.g., private industry, self employment)

Computing the Offset:

- | | | |
|-----------------|----|----------------------------------|
| 1. \$350.00 | | |
| <u>\$325.00</u> | Or | 2. $\$350 \times 4/40 = \35.00 |
| \$ 25.00 | | |

Annuity After Offset:

$(\$ 800.00 - \$25.00) = \mathbf{\$775.00}$

The offset applies if the employee is **eligible** for benefits from the Social Security Administration, regardless of whether they have applied for the SSA benefit or have actually begun to receive it. The offset is made when the basic requirements for Social Security are met, usually at age 62. There is no provision in the law for the payment of deposit to avoid the offset. The offset rules also apply to disability annuities and survivor annuities regardless of whether they fall under the earned annuity or the guaranteed minimum computation. If the employee never becomes eligible for Social Security benefits, then the offset is never taken and a full CSRS retirement benefit is paid.

CSRS Offset and Social Security Disability Benefits

CSRS Offset employees applying for CSRS disability are required to submit to OPM verification that they have applied to Social Security for disability benefits (see 5 CFR 831.1006). OPM will reduce the amount of the CSRS benefit if the employee is found to be eligible for Social Security disability benefits. If a CSRS disability annuitant who is not entitled to Social Security disability benefits becomes eligible for old-age benefits, the CSRS annuity will be offset. The formula for this reduction is the same as the CSRS Offset reduction that occurs when a nondisability annuitant becomes eligible for old age retirement. (Refer to Section 50A3.1-4 of the CSRS and FERS Handbook.)

CSRS Offset and Social Security Survivor Benefits

Survivor benefits payable to the spouse of a deceased CSRS Offset employee are the same as those payable upon the death of an employee with full CSRS coverage ***until and unless*** the survivor becomes eligible for Social Security survivor benefits. Normally, the surviving spouse will become eligible for Social Security survivor benefits at age 60 unless the spouse is disabled or is caring for a minor child. At that time, the CSRS annuity will be offset by the amount of the Social Security benefit.

FERS Employees and Social Security Disability Benefits

The Social Security Act applies to employees covered under FERS. Therefore, a FERS employee applying for FERS disability is required to apply for SSA disability. If the employee is still working, they will generally be denied SSA benefits due to earnings equal to or exceeding the SGA. Employees who have been denied due to SGA may reapply to SSA after they have stopped working.

The FERS disability computation provides an annuitant:

- First 12 months of eligibility: 60 percent of the High -3 average salary MINUS 100 percent of any Social Security benefit;
- After first 12 months of eligibility: 40 percent of the High-3 average salary MINUS 60 percent of any Social Security benefit;
- At age 62: The disability annuity is recomputed to reflect the amount the individual would have received if he or she had continued working until the day before his/her 62nd birthday and retired under FERS optional retirement provisions. The total service used in the computation is increased by the amount of time the individual received a disability annuity.

FERS and Social Security Survivor Benefits

Survivors of deceased FERS employees may be eligible for a benefit under Social Security as well the FERS Basic Employee Death Benefit and Survivor Annuity. Post-1956 military service may not be credited under FERS without a deposit.

Children's Benefits

Any monthly FERS survivor benefit payable to a child of a deceased employee is reduced by the total Social Security benefit. In most cases the FERS benefit is reduced to \$0 and children enrolled in school full time may receive Social Security benefits until age 19. Since the FERS children's benefit is payable to full time students up to age 22, it is possible to receive that benefit when the Social Security terminates. There is no reduction to the FERS benefit if the child is not entitled to Social Security.

WINDFALL ELIMINATION PROVISION

The Windfall Elimination Provision (WEP) is a provision of law that primarily affects people who spent most of their careers working in government jobs with coverage under CSRS or for employers who do not withhold Social Security taxes. It affects people who also worked at other non-government jobs or who switched to FERS and paid Social Security taxes long enough to qualify for Social Security benefits. The provision requires that the Social Security benefit amount be calculated using a formula devised specifically to prevent government workers from receiving a windfall.

Social Security benefits replace a percentage of a worker's average pre-retirement earnings over a normal career, usually a 35-year period. Benefits are calculated to ensure that lower-paid workers get a higher percentage return on their lifetime earnings. WEP applies when an individual has less than 30 years of employment with full social security deductions. Before the WEP was enacted, government employees under CSRS, who generally worked under social security for a few years after retirement, received a social security benefit that was meant for long-term, low-wage workers. CSRS retirees received a higher Social Security benefit in addition to their government pension. The modified formula eliminates this so-called "windfall." The formula is used in figuring the Social Security benefit beginning with the first month the retiree is in receipt of both a Social Security benefit and the other pension.

The modified formula **does not** apply to survivor benefits. It also **does not** apply if:

- the person is a Federal worker first hired after December 31, 1983; (these people are either covered under FERS or under FICA only);
- the person was employed on January 1, 1984, by a nonprofit organization that was mandatorily covered under Social Security on that date;
- the person's pension is based solely on railroad employment;
- the person worked where he/she did not pay Social Security taxes before 1957;
- the person has 30 or more years of substantial earnings under Social Security;
- the person's date of birth is before January 2, 1924; or,

- the person was eligible for a pension before 1986 under an early-out option and the worker meets all requirements for the pension other than having actually filed.

WEP and FERS Annuities with a CSRS Component

Individuals who are under FERS but will have a CSRS component in the computation of their annuity will also be subject to the WEP. The reduction to the Social Security benefit, however, will not be as great as for individuals who have no service covered by Social Security. The Social Security benefit will be computed using the WEP formula, but it will be prorated using months of service that are both covered and not covered by Social Security.

WEP and CSRS Offset

CSRS Offset employees are also subject to the WEP. When the reduction or offset is calculated in the CSRS Offset retiree's OPM benefits, the Social Security benefit used to calculate the reduction will be based on the WEP formula, if applicable.

Note: A guarantee is provided to protect workers with relatively low pensions. In no case will a worker's PIA be reduced by more than one-half of their pension from service not covered by Social Security.

GOVERNMENT PENSION OFFSET

The Government Pension Offset (GPO) is a provision of the Social Security law that reduces an individual's social security spousal or survivor benefit if they are receiving a pension based on ***their own employment*** from a federal, state, or local government, which was not covered by Social Security. The offset reduces the Social Security benefit by two-thirds of the government pension. The GPO applies to retirees under the Civil Service Retirement System. Employees who retire under the Federal Employees Retirement System or under CSRS Offset are not subject to reduction of Social Security benefits. CSRS employees who elect to transfer to FERS on or after July 1, 1988, must be covered by FERS for 5 years to be exempt from the offset.

Example: Susan retired from the federal government and earns a CSRS pension of \$600 per month. She did not pay Social Security taxes. Based on her deceased husband's employment record, she is eligible for a \$500 per month Social Security benefit. Under the provisions of GPO, Susan's Social Security will be reduced and she will receive \$100 per month in widow's benefits. The computation used to calculate Susan's benefit under the offset provision is illustrated below.

$$\begin{array}{rcl}
 & \$500 & \text{(Widow's Social Security benefit)} \\
 - & \underline{\$400} & \text{(two-thirds of Susan's monthly \$600 CSRS pension)} \\
 & \$100 & \text{(actual Social Security benefits payable under GPO)}
 \end{array}$$

MEDICARE



Medicare is the country's health insurance program for people age 65 or older, certain people with disabilities who are under 65, and people of any age who have permanent kidney failure. It provides basic protection against the cost of health care, but does not cover all medical expenses or the cost of most long-term care. Medicare is comprised of two parts: Hospital Insurance (Part A) which is financed by the payroll FICA taxes, and Medical Insurance (Part B) which is partly financed by monthly premiums paid by enrollees.

Prior to 1983, Medicare did not cover Federal employees. Beginning in January 1983, employees covered by CSRS began paying the Medicare portion of FICA taxes. By law, all Federal employees who worked during January 1983 received "deemed" quarters of coverage for purposes of Medicare for any Federal service prior to January 1983. The passage of the Federal Employees Retirement Systems Act brought all new Federal employees after 1983 under Social Security and Medicare. All Federal employees, including those not covered by Social Security, are subject to payroll deductions of 1.45 percent of their basic pay to cover the Medicare Hospital Insurance portion of the Social Security tax.

Medicare Part A

Medicare Part A helps pay for inpatient care in a hospital or skilled nursing facility, or for care from a home health agency or hospice. If admitted to a hospital, Medicare provides coverage for a semiprivate room, meals, regular nursing services, operating and recovery room costs, intensive care, drugs, laboratory test, X-rays, and all other medically necessary services and supplies. The calendar year 2011 Part A deductible is \$1,132 per benefit period. A benefit period begins the day of hospitalization and ends upon release. There is no limit to the number of benefit periods a participant can have. Except for the deductible amount, Medicare helps pay for inpatient hospital services for up to 90 days in each benefit period. The patient must pay the deductible for the first 60 days in each benefit period. If the stay exceeds 60 days, the patient will be responsible for the coinsurance of \$283 (2011) a day up to a maximum of 30 days. After 90 days, the patient may draw upon the 60 additional lifetime reserve days. The coinsurance of \$566 (2011) a day is paid for these 60 additional lifetime reserve days. The lifetime reserve of 60 days is not renewable.

Medicare Part B

Medicare Part B helps pay for physician services, outpatient hospital care, clinical laboratory tests and various other medical services and supplies, including durable medical equipment. Covered services include surgical services, diagnostic tests and X-rays that are part of treatment, medical supplies furnished in a doctor's office, and

drugs which cannot be self-administered and are part of treatment. Under Part B, Medicare usually pays 80 percent of the approved charges for doctors' services and the cost of other services that are covered. The calendar year 2011 Part B deductible is \$162 per benefit period.

All persons age 65 and over who are insured for Social Security cash benefits are eligible for premium-free Hospital Insurance, Medicare Part A. Individuals not automatically eligible for Part A may purchase coverage by paying a monthly premium of \$450 if they have less than 30 credits. In 1983, Federal employees not covered by Social Security, CSRS employees, first began paying the portion of Social Security tax that is creditable for Hospital Insurance. Transitional provisions provide credit retroactively for those employed on January 1, 1983, and before. All federal employees began earning credits for Medicare purposes beginning January 1, 1983. Medical Insurance, Medicare Part B, is available to all of those eligible for Medicare Part A but requires payment of a monthly premium. The Medicare Part B premium for calendar year 2011 is \$96.40.

Enrollment

Employees or annuitants already receiving Social Security cash benefits will automatically receive a Medicare card in the mail upon attainment of age 65. This card will provide verification of Medicare enrollment for Hospital Insurance (Part A) and Medical Insurance (Part B) benefits should Part B be elected. Some Federal retirees are not eligible for Social Security cash benefits but are eligible for Medicare Parts A and B. Employees and annuitants **must** contact the SSA during an enrollment period to file an application in order to activate the Medicare coverage. The initial enrollment period is a 7-month period that begins 3 months before initial entitlement to coverage. Any individual who declines to enroll during the initial enrollment period may enroll during a general enrollment period. The general enrollment period is each year from January 1 through March 31. Coverage begins the following July. The Part B premium rate for a person who enrolls after the first period when enrollment is open, or who reenrolls after terminating coverage, will be increased by 10 percent for each full 12-month period the individual stayed out of the program. The penalty will not apply to those persons who are employed and covered by the Federal Employees' Health Benefits (FEHB) Program when age 65 is attained. Employees in such a circumstance may opt not to enroll in Medicare and will be permitted a special enrollment period. This seven-month period begins with the month employment ends or the month coverage under FEHB ends.

Medicare Prescription Drug Information

The Medicare Prescription Drug Improvement and Modernization Act of 2003 (P.L. 108-173), enacted December 8, 2003, requires the SSA to undertake a number of additional Medicare-related responsibilities. The SSA and the Centers for Medicare & Medicaid Services (CMS) are working together to provide persons with limited income

and resources extra help paying for their prescription drugs. The SSAs role in this partnership is to help the public understand how they may qualify and apply.

The Medicare Prescription Drug Program (Part D) that began January 1, 2006, provides prescription drug coverage under Medicare. Individuals having limited income and resources may be able to obtain assistance paying for monthly premiums, deductibles, and co-payments under the new prescription drug program.

This program will assist individuals whose annual income is limited to \$16,245 (\$21,855 for a married couple living together) for 2011. If the individual qualifies, they may not have to pay monthly premiums or deductibles, and could pay as little as \$2 for co-payments.

In addition, to qualify, the total resources must be limited to \$12,510 for an individual (\$25,010 for a married couple living together) for 2011. Resources include such things as bank accounts, stocks, and bonds. Social Security will not count a primary residence, personal possessions, and vehicles as resources.

For more information and application instructions, refer to www.socialsecurity.gov/prescriptionhelp/.

Medicare and FEHB

Medicare is not subject to an earnings test and may be activated while still employed. In such cases, Medicare will be the secondary payer and the Federal Employee's Health Benefits (FEHB) Program will be the primary payer so long as the beneficiary is employed by the employer providing the coverage. Upon retirement, Medicare will be the primary payer and the FEHB will be the secondary payer. An employee may reject the employer's plan and retain Medicare as the primary payer. However, employees should carefully weigh the disadvantages of dropping FEHB, as Medicare does not cover 100 percent of all costs. Additionally, Medicare coverage does not count toward the 5 years/first opportunity requirement to carry FEHB into retirement.

Examples: Primary Payer – Medicare or FEHB

Jack is 66, his spouse is 63, he is an active employee with the Federal government, and he has family FEHB and Medicare. The primary payer is FEHB.

Jack is 64, his spouse is 67, he is an active employee with the Federal government, and he has family FEHB and Medicare. The primary payer is FEHB.

Jack is 66, his spouse is 63, he is a CSRS annuitant, and he has family FEHB and Medicare. The primary payee is Medicare.

Jack is 64, his spouse is 67, he is a FERS annuitant, and he has family FEHB and Medicare. The primary payee is Medicare.

Under the present TRICARE program, retired military members and some military dependents may be eligible for health coverage under TRICARE (formerly CHAMPUS). Most TRICARE beneficiaries who become eligible for premium-free Medicare Part A lose their TRICARE eligibility. People who are under 65 and lose TRICARE coverage because of eligibility for Medicare based on final stages of renal disease (kidney) may later lose their Medicare coverage because their condition improves.

If this happens, TRICARE coverage can usually be reinstated. Dependents of active duty service members can keep both TRICARE and Medicare if they suffer from renal disease. Others who may retain both TRICARE and Medicare include:

- People who are eligible for Medicare Part B only,
- People who are covered by Medicare Part A only because they buy it, and
- People who are entitled to Medicare based on disability. These people must enroll in Part B to keep their TRICARE eligibility.

If a person has both TRICARE and Medicare, Medicare is the first payer of health care claims (unless services are furnished by a federal provider such as a military hospital). If Medicare does not pay the charges in full, TRICARE may supplement the Medicare payment up to the amount TRICARE would have paid if there were no Medicare coverage.

ADDITIONAL READING

Social Security maintains information on the various programs in their publication's website. Refer to www.socialsecurity.gov/pubs for up-to-date information.

The SSA issues a monthly publication that is available to employing offices. The *Social Security eNews*, provides timely and relevant information on the retirement, survivors, disability, and supplemental security income programs, as well as important Medicare information. To subscribe, visit www.socialsecurity.gov/enews.